

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**May 24, 2002**

**IN RE:**

**CONDO VILLAS OF GATLINBURG  
ASSOCIATION, INC. COMPLIANCE AUDIT**

)  
)  
)  
)  
)

**DOCKET NO.  
01-00797**

---

**ORDER ADOPTING COMPLIANCE AUDIT REPORT OF TENNESSEE  
REGULATORY AUTHORITY'S ENERGY AND WATER DIVISION**

---

This matter came before the Tennessee Regulatory Authority (the "Authority") at a regularly scheduled Authority Conference held on April 30, 2002, for consideration of the report of the Authority's Energy and Water Division (the "Staff") resulting from the Staff's compliance audit of Condo Villas of Gatlinburg Association, Inc. ("Condo Villas" or the "Company") for the twelve (12) months ended December 31, 2000. The Compliance Audit Report (the "Report"), attached hereto as Exhibit 1, contains the audit findings of the Staff, the responses thereto of the Company, and the recommendations of the Staff to the Company in addressing the findings.

On February 12, 2002, the Staff completed its compliance audit of Condo Villas and issued its preliminary audit findings to the Company. The Company responded to these findings on April 1, 2002. The Staff filed its Report with the Authority on April 9, 2002. The Report states that Condo Villas is a small water system located in Gatlinburg, Tennessee. The Company is owned solely by Foothills Water Properties, Inc. and currently has approximately ninety-one (91) customers.

The Report contains three (3) findings. The first finding is that the Company does not keep its books in accordance with the Uniform System of Accounts ("USOA"). The Report

recommends that the Company make the necessary changes in its accounting methods and procedures to comply with the USOA for Class C Water Utilities, beginning with calendar year 2002. The Report further recommends that the Company provide the Staff with evidence of compliance no later than thirty (30) days following the Authority's approval of this finding. The Company's response to this finding is that the Company has complied with this finding effective January 1, 2001.

The second finding is that the Company failed properly to record tap fees as prescribed in Tennessee Public Service Commission ("TPSC") Order No. 90-02584, in which the Company was granted approval for a \$750.00 tap fee. The Report states that certain tap fees collected in 2000 were recorded as revenue, although the TPSC Order requires that the fees be used for plant expansion. The Report further states that no Contributions in Aid of Construction ("CIAC") have been recorded for tap fees for fourteen (14) customers who appear to have joined the system since the TPSC Order was issued. In addition, the Report states that the Company did not record any corresponding CIAC amortization. The Report recommends that the Company be directed to make the correcting accounting entries to reflect the CIAC and associated amortization no later than thirty (30) days after the Authority's approval of the Report, and that the Company properly record any further tap fee collections as CIAC and amortize such collections in a manner consistent with Authority practices. The Company's response to this finding is that the Company has made the correcting accounting entries.

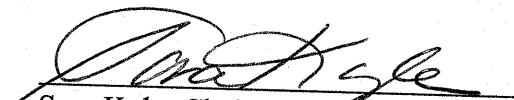
The third finding is that the Company entered into an agreement during 1999 with the Company's prior owner to waive up to as many as twenty-five (25) tap fees without prior approval of the Authority and failed to record the liability associated with these waived tap fees. The Report recommends that the Company be required to record this liability to conform to the


USOA and submit proof to the Authority of such conformity no later than thirty (30) days after the Authority's approval of the Report. The Company's response to this finding is that the Company has accepted and complied with this recommendation.


After consideration of the Report, the Authority unanimously approved and adopted the findings and recommendations contained therein.

**IT IS THEREFORE ORDERED THAT:**


1. The Compliance Audit Report, a copy of which is attached to this order as Exhibit 1, is approved and adopted, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein;
2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.

  
Sara Kyle, Chairman

  
H. Lynn Greer, Jr., Director

  
Melvin J. Malone, Director

ATTEST:

  
K. David Waddell, Executive Secretary